

The Countermeasures to the Management of Government Investment Projects

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Abstract

From the perspective of the construction and management of government investment projects and based on the current development situation of Chinese construction market, this paper conducted an in-depth analysis on misbehaviors in the process of government investment projects management, such as misappropriated funds for construction, loose execution of bidding system, disorderly competition of construction market, nonstandard engineering alteration. Countermeasures like strengthening institutional building of government investment projects management was also put forward as reference for relevant departments.

Keywords

Government Investment Projects; Supervision; Management; Bidding System

Presentation of the Questions

From a global perspective, even in the western developed countries, the management performance of government investment projects can not be compared with ordinary projects in terms of quality, schedule, investment, environmental protection and safety. The reason, in essence, is due to the congenital defect on property of government investment projects and a lot of activities excessively striving for profits. Especially in recent years, although the government has invested a lot on infrastructure projects in order to stimulate the economy, it has also brought about striking corruption in the process of construction. It's a very practical problem that we should solve that how to effectively manage government investment projects and be responsible for the taxpayers of the whole society. The position of contract execution and management in engineering project management is important.

Features of Government Investment Projects

Government investment projects should be fundamental and public projects should be concerning

about the public interest and safety. So these projects should have the following characteristics:

The majority of government investment projects are supposed to focus on the development of social services, belonging to nonprofit public welfare projects.

Large government investment projects undertake more investment and higher risk as well as stronger significance than average projects, which are decided by the fact that government plays a key role in national public interest.

Government investment projects have more strict management procedures than general projects

Government investment projects receive a wide range of social concerns.

Problems of Government Investment Projects

Because of the defects on property, lagging institution building and loose execution, there are still a lot of problems existing in our government investment projects, among which the most striking problems in need of solution urgently focus on the following aspects:

Serious Misappropriation or Diversion of Construction Funds

Some authorities or construction enterprises used the power retaining, squeezing and misappropriating funds for construction. Some engineering companies even employed tricking plots, hesitating to use their own money and just relying on central government funds to meet the expenses of the project, which resulted in capital gaps and delayed in the construction schedule. Some personnel in authority departments occupied a large portion of the valuable construction funds with the excuse of investigating, researching and studying abroad or other business activities in intermediate links.

Arbitrarily Expand the Scale and Raise Construction Standards

This phenomenon was most likely to occur when construction enterprises "self-building, self-managing and owner-occupied" the projects. Moreover, it was particularly prominent in the implementation process of non-profit projects' construction. For their own sake, these enterprises will inevitably expand the scale and raise construction standards, ignoring cost control of the project. It has been proved under the circumstance of "self-building, self-managing and owner-occupied", the phenomenon of engineering budget exceeding estimation and final accounts exceeding budgets happened a lot.[1]

Poor Implementation of Bidding Systems

Some construction firms evaded bidding or made false bidding, ignoring legal procedures of bid opening, evaluation and calibration. In some cases that public bidding should be adopted, some engineering companies chose selective bidding, negotiation bidding or even direct designation instead, which made some unqualified engineering companies contract construction tasks. For instance, in the process of contracting, some companies directly gave the design and construction supervision tasks to so-called "relative companies" for benefits, resulting in rough design and poor quality. What's more, for personal interests, some engineering firms unscrupulously conducted secret operations like "hanging wine but selling vinegar" and subcontracted the project more than once, which led to a significant risk to the project construction. Practice proved that a majority of quality accidents in construction and corruption crimes occurred these years were mostly related to poor implementation of bidding system, insider trading and false bidding.

Disorderly Competition in Construction Market

Currently there are two prominent features in construction market: Firstly, as market-oriented reforms gradually go deeper, the competition becomes more and more drastic and typical feature of "buyer's market" is clearer than before. Construction enterprises with qualifications and abilities have to compete for surviving. Secondly, in the field of construction of government investment projects, once the construction firms obtain the project, they will get relatively abundant profits. In this format, very serious problems will arise, namely disorderly and even vicious market competition. The most outstanding features are

unqualified engineering companies entering the construction market by attachment, bid-rigging or some other ways. Once winning a bid, some construction firms will employ trickery to take advantage of site visa and design modification to make improper economic profits.

Not Standardized Alteration and Unruly Cost

There is a common phenomenon in domestic construction market, namely "Winning a bid by low cost, making money by alteration". Some contractors always desperately lower the price when bidding for a government investment projects. After winning that they will manage to get confirmation on increasing the cost to make use of loopholes in drawing design, outcome checking and construction contracts or other blurry links [2]. They even adopt all kinds of tricks like fabrication, exaggeration, bribe or threatening to obtain projects confirmation and design alteration, which make it hard to control the construction cost of government investment projects and ended up with an increase on investment. In addition, some personnel in engineering companies that could not withstand the temptation would even collude with construction contractors for profits.

Serious Delay on Completion and Exceeding Investment

Striking problems mentioned above results in the prevalence of low efficiency on money in the process of government investment projects constructing. Delay on completion, exceeding the investment, poor quality and security without enough guarantee are the most direct reflection of low efficiency on investment, among which completion schedule and budget issues are more serious than the rest.

Countermeasures to Strengthening the Management for Government Investment Projects

Management of government investment projects is a very complicated and systematic project, the presence of the above problems are not isolated cases. In order to effectively solve them, we must strengthen the building and enforcement of institution. Following measures are recommended:

Paying the Central Financial Funds after the Completion

In order to solve the problems of local government misappropriating funds and expanding the

construction scale without authority, central financial funds will be paid after the completion instead of paying in advance. Moreover, an audit will be executed before the payment. Unreasonable cost will be paid by local governments or construction companies instead of central government. In this way, problems like misappropriating funds or expanding construction scale will be avoided and construction funds can be ensured to enter the place really in need.

Implementing Design Bidding and Changing Charge Mode of Design

Currently, design bidding is not executed basically in government investment projects. When selecting a design company, construction enterprises still widely adopt "black case work" in private, which is an approach to lack transparency seriously. Moreover, it's also not conducive to introduce competition mechanism to select design firms and improve design quality. The lack of effective supervising mechanisms will breed unhealthy tendencies or even corruptions. The introduction of competition for design bidding can better solve such problems. So it's recommended to implement design bidding in major government investment projects, combined with design supervision at the same time. The reason is that of the design drawings will decide at least 70% cost of whole project. The introduction of design supervision can improve design quality and better control the cost. In order to make supervision in the phase of construction and supervision coordinate effectively, choosing one company for both two functions is recommended, which means making construction supervision involve in the design phase in advance. To ensure design quality and control costs, the charge mode that design fee can only relate to construction cost should also be changed. For improving the design quality, we should adopt quota design and make design standards linked to economic interests.

Contracting Projects with Enacted Risk Responsibility and no Alteration and Vise

Construction site vise and design alteration will create opportunities for contractors to increase the cost and pursue profits. Engineering companies will bribe design units, construction units and engineering supervision units to employ trickery for increasing engineering quantities or even altering the design. If some personnel concerned can not withstand the temptation and sign, a lot of government investment funds will become illegal profits of construction

contractors. Implementing contract projects with the enacted risk responsibility will help eliminate these violations and illegal activities fundamentally. Specifically, after considering various risk factors, construction units should increase 3%-5% of the tender price as project alteration fee according to the degree of difficulty. After winning the bid, the contract should be signed with a close cost. Cost exceeding the scope of risk will not be altered when settling after project completion, implementing "no vise", which is called "the enacted risk responsibility". Unless there is a momentous change in construction process, no adjustment or increase will be allowed. Demonstration will go ahead of the alteration even there is a major change.

The implementation of construction contracting with risk will help control the cost of government investment projects and eradicate the possible root of corruption. Since "rent-seeking" is basically eliminated through site vise and design alteration, it can also help construction contractors to improve economic efficiency and ultimately achieve a win-win situation by enhancing the ability, strengthening the management, optimizing the construction program or other ways.

Implementing Performance and Guarantee System in Contracting

In order to avoid some contractors with a shortage of credit and ability entering the market of government investment projects and ensure the quality of these projects, the best solution should establish a system of performance and guarantees on both sides. In fact, if there is a lack of effective performance and guarantee on engineering contracts, contracting projects with enacted risk responsibility mentioned above can hardly be implemented.

To increase constraints force for the guarantees and raise the threshold access to government construction market, the guaranteed amount of government investment projects contractors shall not be less than 20% of the construction contract price. For those government projects winning the bid with the method of "lowest bid price", the guaranteed amount should not be less than 30% of the construction contract price. When the remaining value of the contract is less than the original guaranteed amount, the guaranteed amount for performance resubmitted by contractors should not be less than the residual value of the contract.

Of course, for the sake of fairness and for preventing serious damage to the government "integrity" image because some government investment projects postpone paying the construction cost, construction units of government investment projects should also offer "guarantee of payment" to contractors. Besides, the guaranteed amount should be equal to the contractors who have paid for the performance and guarantee.

Strengthening the Supervision to Government Investment Projects and Creating a Transparent Government

Joint review mechanism aiming at the investment control and funds supervision for government investment projects should be established. Financial audit departments of government investment projects at all levels should implement entire process of follow-up audit supervision from budget estimates compiling, budget execution, price alteration confirmation, project completion to financial accounts^[3]. The cost validation of each channel should be strictly supervised by financial assessment, which is also regarded as effective basis for funds disbursing and investment control so as to achieve the most direct and effective administrative supervision to government investment projects.

To facilitate the supervision of the society and public and create a transparent government, the process, quality, price and payment details in the implementation process of government investment project progress should be regularly published on websites. Financial audit department should execute follow-up audit supervision according to the public's reflection so as to avoid that supervision and audit department are not in place because of lack of strength or regulatory. Do not begin to audit after the final completion of the project the audit; it makes no sense to get hindsight.

Before the implementation of major government projects, we should not only get ideas from the public

in decision-making, but also regularly or irregularly invite relevant experts and scholars, representatives of the public and some deputies to supervise and inspect the construction of major government investment projects in the process of implementation. The main contents of supervision include "quality, progress, investment, security, environmental protection" and so forth. The situation of the supervision should be promptly informed to the public.

Establishing a Perfect Reporting System

We should change the current imperfect reporting system with no security mechanisms, reporting methods and ambiguous incentives^[4]. To encourage individuals and the media to report the illegal behaviors of related departments or individuals of the government investment projects in the process of decision-making and construction, appropriate incentive mechanism should be established. For meritorious departments and individuals, certain incentives should be awarded in a fixed proportion to the size of recovered loss. Unless the consent of the informers is obtained, their names and units can never be disclosed.

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